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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

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Canada

Copies of this publication may be obtained free of charge from:
Natural Resources Canada
Petroleum Resources Branch
580 Booth Street, 17th Floor
Ottawa, Ontario K1A 0E4
Phone: (613) 992-9612
TTY Service: (613) 996-4397 (Teletype for the hearing-impaired)
Fax (613) 992-0614
Email: prb.drp@nrcan-rncan.gc.ca
Web site: http://nrcan.gc.ca/eneene/focinf-eng.php

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National Overview

Canadian Retail Gasoline Prices Drop by 3 Cents per Litre from Last Week

For the week ending October 16, 2012, Canadian average retail gasoline prices decreased by nearly 3 cents per litre from the previous week to $1.30 per litre—this offset the 3 cents per litre rise of two weeks ago. Prices are above last year's level by 4 cents per litre.

Diesel fuel prices rose by 1 cent to $1.26 per litre, and furnace oil prices increased by 3 cents ending at $1.19 per litre from the previous week. Compared to a year ago, prices for diesel and furnace oil are 1 cent per litre lower and 6 cents per litre higher, respectively.

Despite slightly higher world crude oil prices, North American wholesale gasoline prices fell, resulting in lower retail gasoline prices.

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

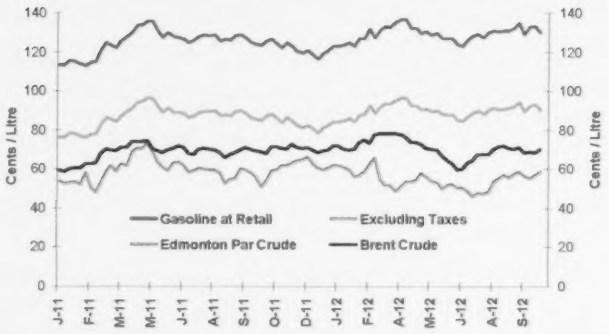
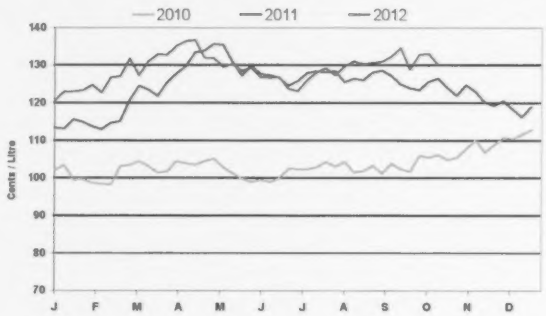


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **Iraq's Oil Production Forecast**: According to the International Energy Agency (IEA) Iraq's oil production is on course to more than double by 2020. However, delays to investment could tighten the global market in coming decades and push prices higher. Iraq's oil production would reach 6.1 million barrels per day by the end of this decade under the IEA's central scenario. (Source: Daily Oil Bulletin, October 9, 2012)
- **Gasoline Prices Rising in California**: US Representative Henry A. Waxman (D-Calif.), the House Energy and Commerce Committee's ranking minority member, has asked the US Federal Trade Commission to investigate a gasoline price surge in the Golden State. Over the past week, retail gasoline prices in California have soared by more than 50¢ per gallon to a record price of $4.67 per gallon ($1.23 per litre). Waxman noted that the most common explanation is that a series of refinery accidents and temporary shutdowns have created a supply crunch in California. The US Energy Information Administration data show that West Coast gasoline inventories are unusually low for this time of year—at the lower edge of the 5-year range. (Source: Oil and Gas Journal)
- **Canadian Crude Oil Production Up 7%**: Production of crude oil and equivalent hydrocarbons increased 7% to 16 million cubic meters in July 2012 compared to the same period last year. Exports increased 3% to 11 million cubic meters. About 69% of Canada's total domestic production went to the export market compared to 73% a year earlier. Imports increased 19% to 3.5 million cubic meters. (Statistics Canada, The Daily, http://www.statcan.gc.ca/daily-quotidien/121015/dq121015b-eng.htm)

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2012-10-16	Previous Week	Last Year
Gasoline	130.1	-2.8	+3.9
Diesel	125.7	+1.0	-1.2
Furnace Oil	119.4	+3.2	+6.3

Source: NRCan

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Retail Gasoline Overview

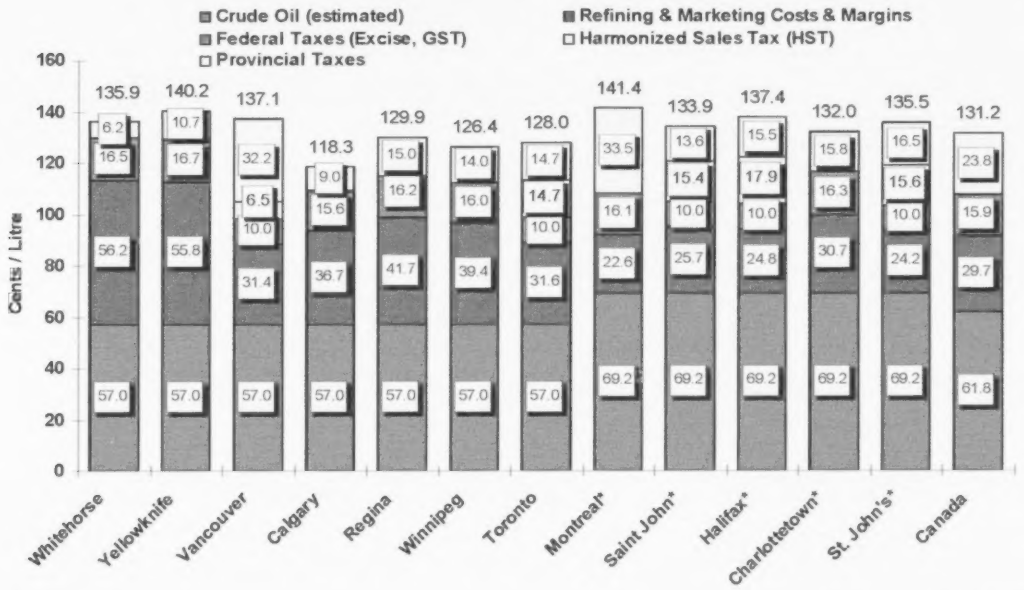
For the period ending October 16, 2012, the **four-week average** regular gasoline pump price in selected cities across Canada was $1.31 per litre, representing a 1 cent-per-litre decrease compared to the price in the previous report of October 5, 2012. The average Canadian pump price is 6 cents per litre higher than during the same period in 2011.

The **four-week average** crude component was 62 cents per litre, a decrease of less than 1 cent compared to two weeks ago.

Retail gasoline prices in most Western centres increased by 1 cent per litre when compared to the previous report and ranged from $1.18 to $1.37 per litre. Prices in Eastern cities decreased by 1 cent per litre and ranged from $1.28 to $1.41 per litre.

At the national level, refining and marketing costs and margins registered a decrease of nearly 1 cent per litre to 30 cents per litre compared to the previous report.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (September 25 to October 16, 2012)



Source: NRCan

** Regulated Markets*

Short-Term Energy and Winter Fuels Outlook

The US Energy Information Administration (EIA) projects average household expenditures for heating oil and natural gas will increase by 19 percent and 15 percent respectively this winter (October 1 through March 31) compared with last winter. Projected household expenditures are 5 percent higher for electricity and 13 percent higher for propane this winter. Average expenditures for households that heat with heating oil are forecast to be higher than any previous winter on record.

The forecast for higher household expenditures primarily reflects a return to roughly normal winter temperatures east of the Rocky Mountains compared with last winter's unusual warmth. According to the National Oceanic and Atmospheric Administration's most recent projection of heating degree-days, the Northeast, Midwest, and South will be about 2 percent warmer than the 30-year average (1971 - 2000), but still 20 percent to 27 percent colder than last winter, while the West is projected to be only about 1 percent colder than last winter. Projected residential heating oil prices average 2 percent higher and natural gas prices 1 percent higher this winter.

Source: US EIA, Short-Term Energy and Winter Fuels Outlook, October 12, 2012, http://www.eia.gov/forecasts/steo/index.cfm

Wholesale Gasoline Prices

Compared to the previous week, wholesale gasoline prices for the week ending **October 11, 2012** decreased in six selected Canadian and American centres.

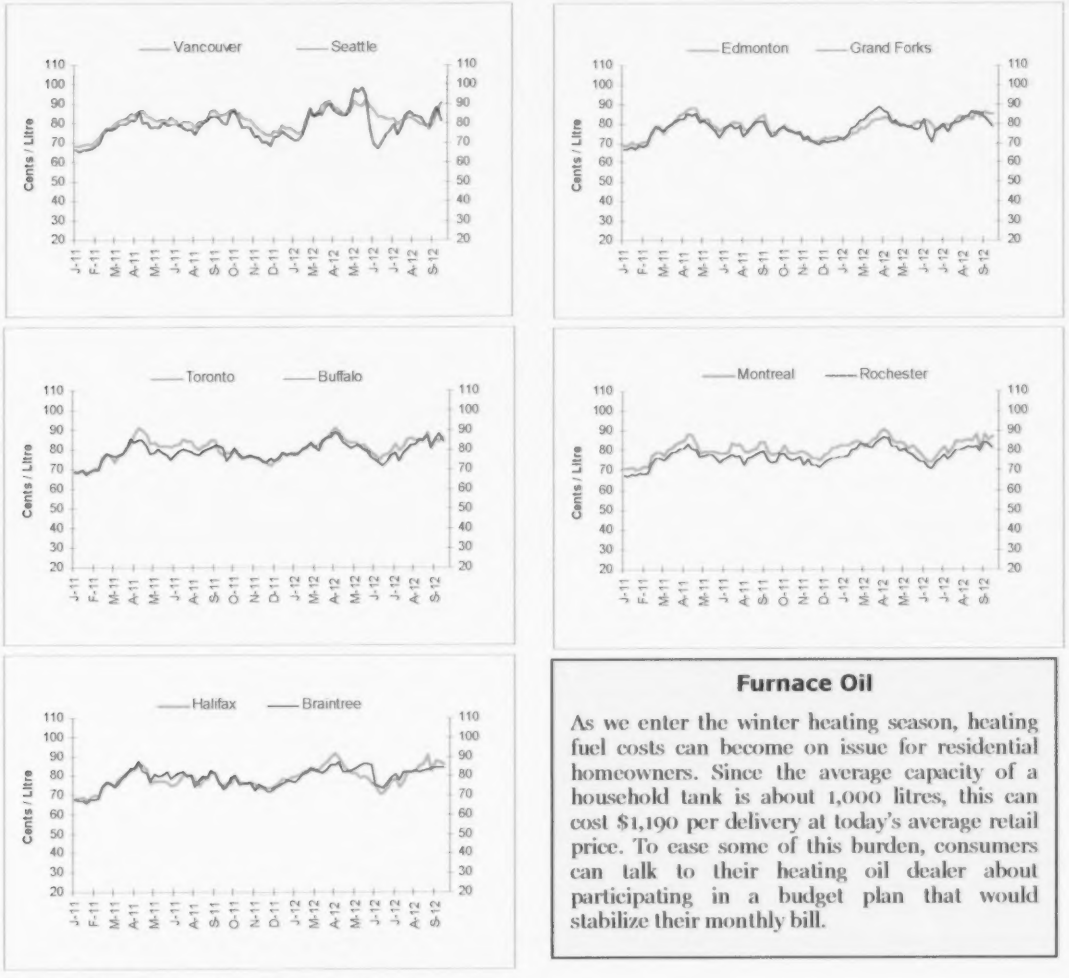
Overall, wholesale gasoline prices ranged between decreases of 7 cents per litre to increases of 5 cents per litre. Prices ended in the 79 to 91 cent-per-litre range.

In the Eastern markets of Canada and the United States, wholesale gasoline prices, compared to the previous week, ranged from a decrease of 4 cents per litre to an increase of 2 cents per litre. Prices ended in the 81 to 87 cent-per-litre range.

Wholesale gasoline prices in the Western centres ranged from a decrease of 7 cents per litre to an increase of 5 cents per litre. Prices ended in the 79 to 91 cent-per-litre range.

Compared to four weeks ago, prices in Canadian centres increased by less than 1 cent per litre, while prices in American centres decreased by 1 cent per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending October 11, 2012
(Can ¢/L)



Furnace Oil

As we enter the winter heating season, heating fuel costs can become on issue for residential homeowners. Since the average capacity of a household tank is about 1,000 litres, this can cost $1,190 per delivery at today's average retail price. To ease some of this burden, consumers can talk to their heating oil dealer about participating in a budget plan that would stabilize their monthly bill.

Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

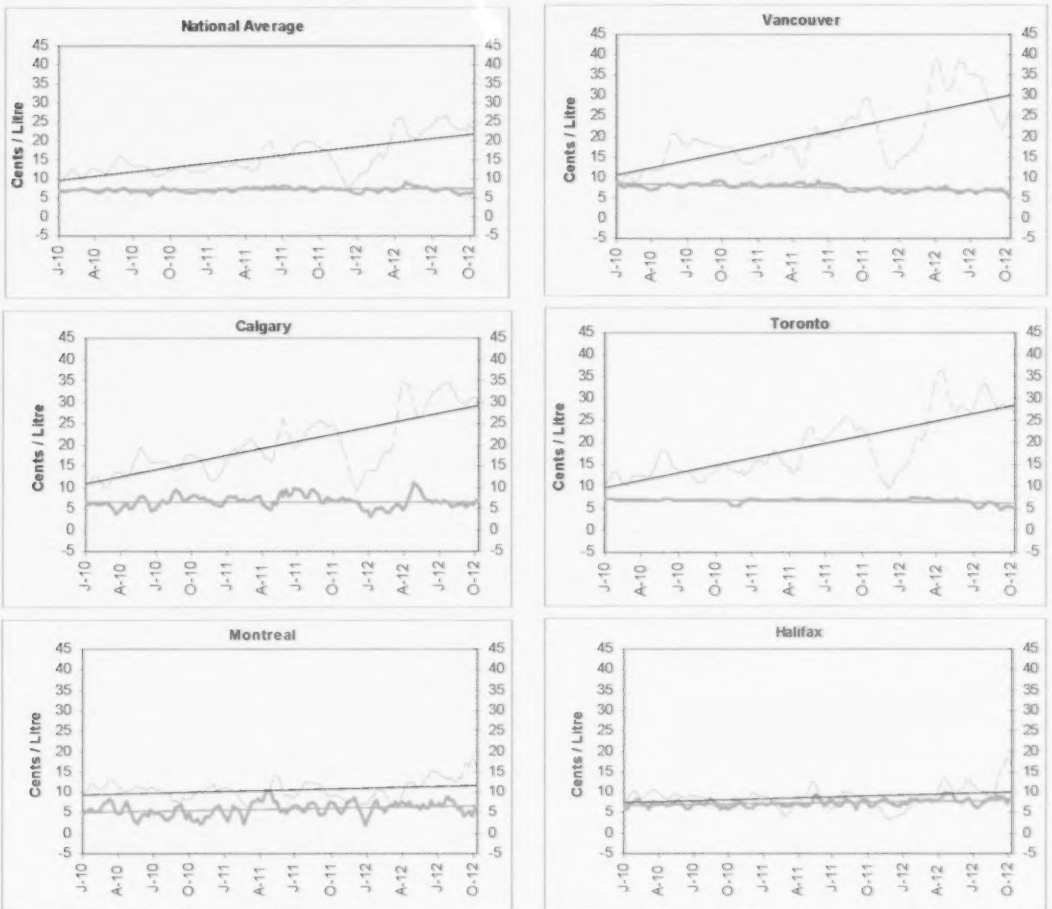
Overall, refining margins have declined by more than 1 cent per litre to 23 cents per litre from two weeks ago. Declining refining margins reflect the decrease in North American demand for gasoline and a well-supplied market.

The refining margins shown here are derived numbers based on the difference between the estimated crude oil price and the wholesale price of gasoline at a point in time.

Edmonton Par is the crude oil price estimated for Vancouver, Calgary and Toronto, while Brent oil price is estimated for Montreal and Halifax.

Marketing margins represents the difference between the wholesale and retail price of gasoline. This margin pays for the costs associated with operating a service station.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending October 16, 2012
------- Refining Margin —— Marketing Margin



Source: NRCan

Crude Oil Overview

Crude Oil Prices Firm-up on Tensions between Turkey and Syria

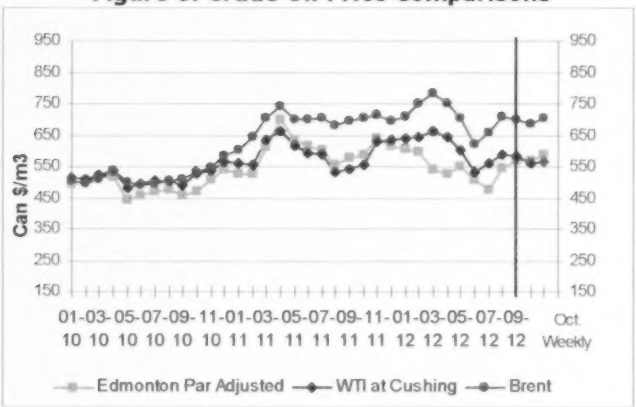
For the week ending October 12, 2012, prices for the three marker crudes averaged between $562/m^3 and $703/m^3, (US$91 to US$114 per barrel). Edmonton Par and Bent increased by $18/m^3 and $17/m^3 (US$3 per barrel) from the previous week, respectively.

As shown in Figure 6, the price disparity between Brent and North American crude oil prices which began in 2010, remain in 2012. This is mainly due to crude oil inventories growing at Cushing, Oklahoma, which is the major trading hub for North American crude oil, and the pricing point for West Texas Intermediate (WTI). This is important to Canada as exports range in the 2.2 million barrels per day to the US, most of it priced relative to the WTI.

According to US authorities, US crude oil inventories are at their highest levels in 22 years mainly as a result of import of Canadian crude from the oil sands and from US tight oil fields. The inventory bottleneck at Cushing was also the result of a lack of pipeline capacity to take oil away from Cushing to other areas such as the US Gulf Coast.

In the last 2 years North American crude has been selling at significantly lower than global prices to the benefit of some consumers, through lower cost for refined petroleum products, depending on the region, and access to lower crude feedstock cost by refineries.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-10-12		Change From:			
			Previous Week		Last Year	
	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl
Edmonton Par	586.37	95.28	+18.13	+3.30	-2.43	+3.79
WTI	562.36	91.38	+1.27	+0.56	+11.65	+5.82
Brent	703.12	114.25	+16.64	+3.14	-12.49	+3.06

Source: NRCan

Current North American Oil Markets

Typically, crude oil is traded widely all around the world and, unless constrained by the lack of infrastructure, can move from one market to another easily by ship, pipeline or barge. Therefore, the market is worldwide and the supply/demand balance determines the price for crude oil all around the world. Prices typically vary little from place to place, with differences reflecting the cost of transportation and of crude oil quality.

Prior to 2010, prices of Brent, WTI and Edmonton Par - crudes of similar quality - closely tracked each other. In late 2010 and into 2011, crude oil inventories began to build at Cushing, Oklahoma, a major oil trading centre, where the price for West Texas Intermediate (WTI) is determined. This buildup was the result of high supplies coming into Cushing, particularly Alberta's oil sands imports, combined with a lack of pipeline capacity to take the oil away from Cushing, such as to the US Gulf Coast. This caused the price of WTI to become discounted compared to global prices such as Brent. Prices for other US and Canadian crudes were also affected by this dynamic. WTI and Edmonton Par are presently lower than Brent by US$23 and US$19 per barrel, respectively. In effect, for large parts of North America, from Alberta to Oklahoma, crude oil prices are heavily discounted versus Brent. This situation is due to inadequate pipeline capacity to bring oil from those areas to coastal ports, where the oil could access high priced global markets by tanker shipment.

As seen in Figure 6, this disparity between the international and North American benchmarks has now persisted since 2010. It is expected that this situation will persist until new pipeline capacity is built to alleviate the oversupply of oil in Western Canada and the US mid-continent.